SaaS Metrics Explained – Which Ones Matter & What They Mean? (ScaleMath Trial)

The first step to improving your SaaS business is knowing your numbers.

SaaS companies are always looking to grow their user base regardless of their stage.

Just like any business, there are metrics in every department: sales, marketing, customer service, etc.

However, the financial health of your SaaS company primarily depends on your customer retention (churn rate).

Imagine trying to fill a bucket, only to find a hole at the bottom. That's a SaaS company's worst nightmare.

No matter how hard you work to acquire new customers, you're not addressing the real issue, which is your product.

Perhaps your product isn't solving the user's problem, or you're not conveying its benefits.

Either way, you first need to track the right metrics to identify areas you can improve and effectively measure the inputs that drive growth.

What Are SaaS Metrics?

SaaS companies use SaaS metrics as benches to gather actionable insights to establish steady growth. Like KPIs, these metrics help organizations project future revenue and gauge the success of their company.

SaaS companies primarily thrive on customer retention since it's paramount to their financial growth.

The greatest financial gains come from receiving recurring revenue from long-term customer relationships.

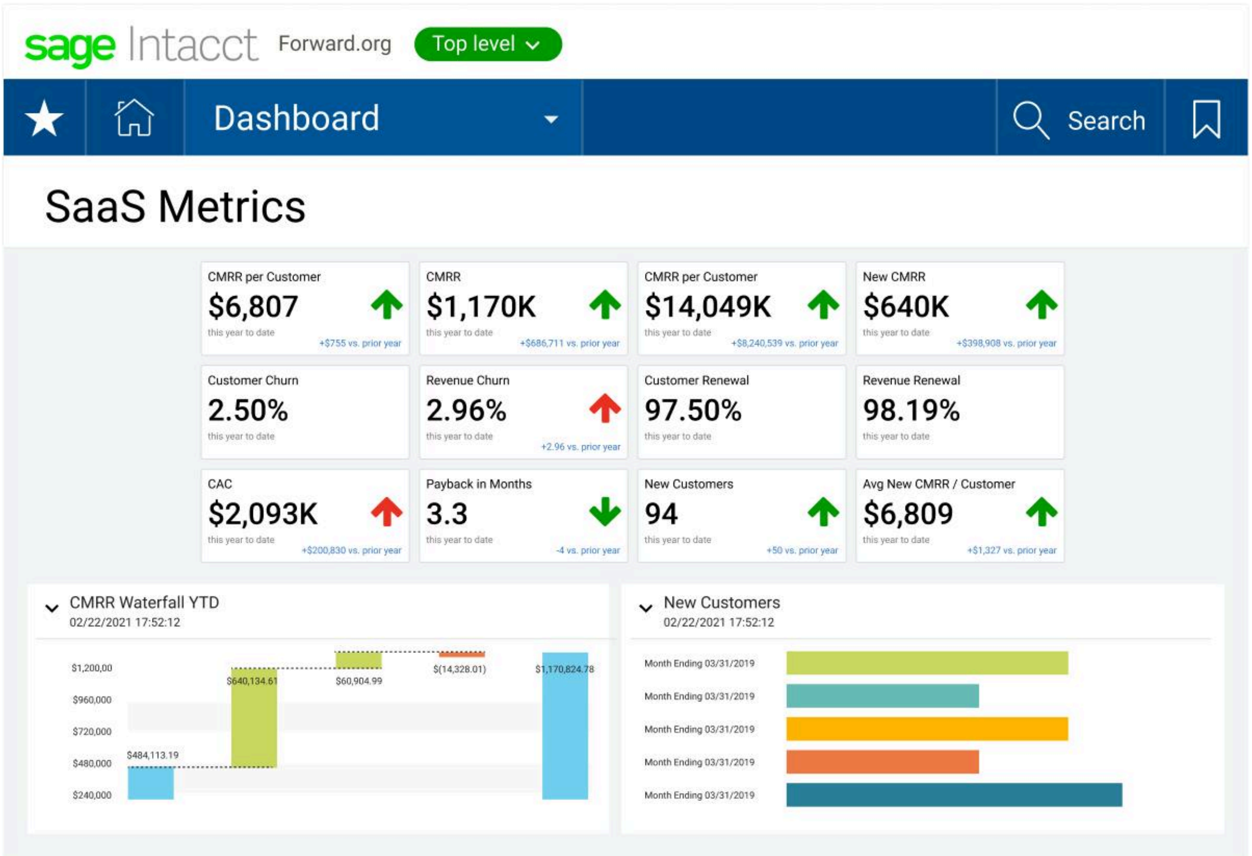
There are dozens of SaaS metrics, but knowing the right ones will let you focus on the key drivers that deliver sustainable growth for your business.

7 SaaS Metrics That Matter and What They Mean

Learning which SaaS metrics to track will allow you to stay focused on the KPIs that truly matter. Tracking these metrics will directly contribute to the growth of your company.

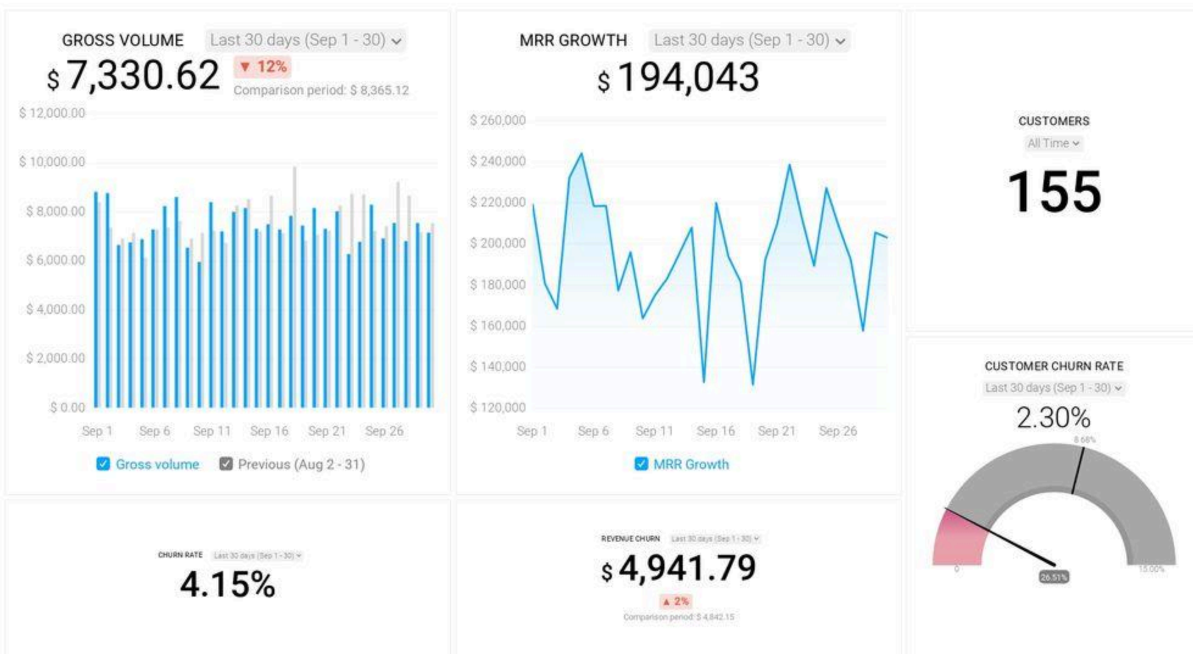
It's important to know that some SaaS management tools or payment providers can track SaaS metrics for you.

Sage Interact is a tool that displays all of your metrics and changes in one dashboard.



Source: [Sage Intacct]()

Databox also has a Stripe integration, where you can view your SaaS metrics like churn rate and MRR growth in real time.



Source: [Databox]

We'll define these metrics and tell you how to calculate them and why it's important.

SaaS Churn

Driving new customers is only half of the equation. The other help is maintaining your existing ones.

The SaaS churn rate measures how much business you've lost during a set time. Essentially, you're tracking your customer retention.

Here's how to calculate the churn rate:

Monthly customer churn: Lost customers in the Month / Previous Month's User Case = Monthly customer churn

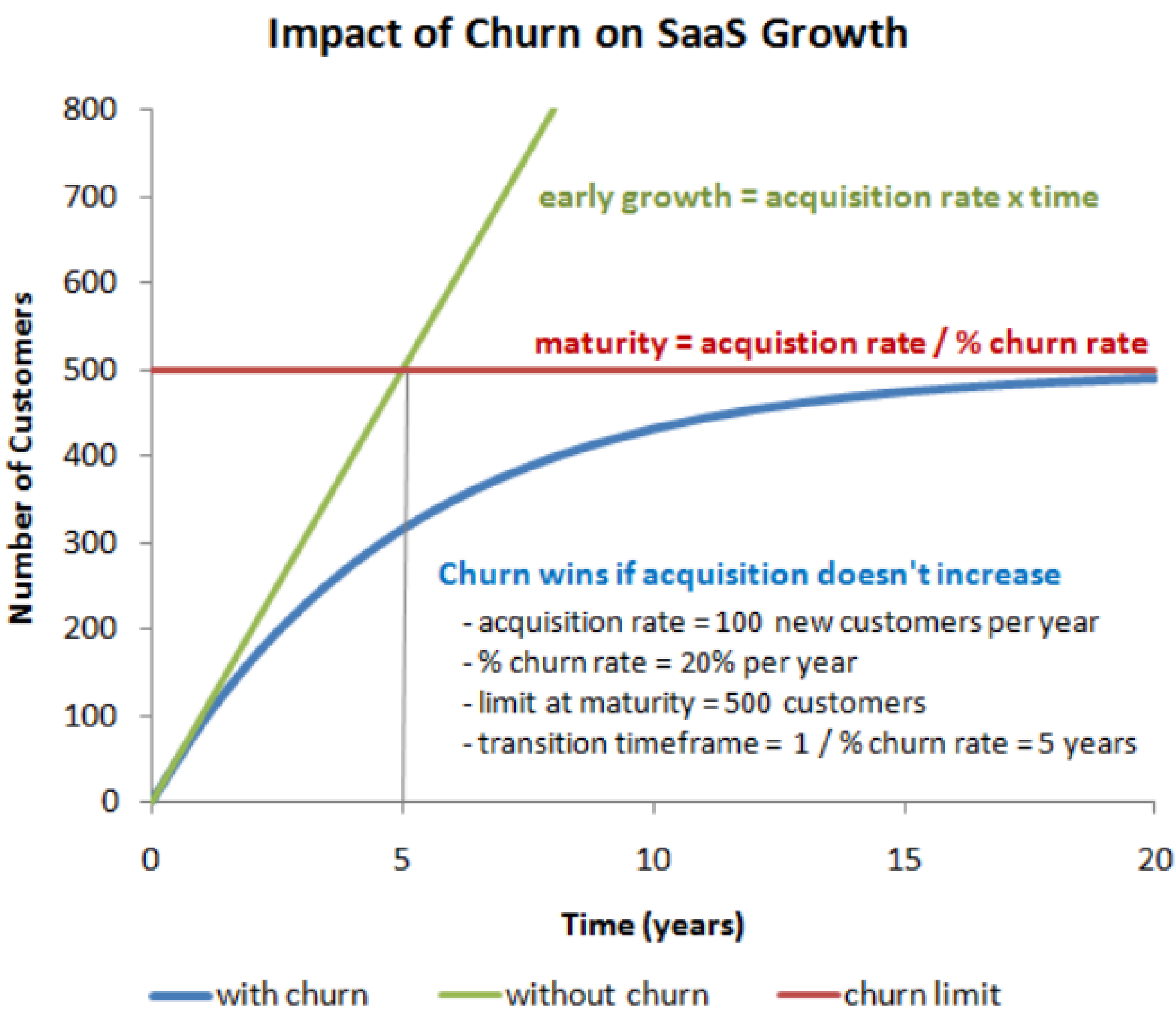
You'll also want to calculate the net churn rate, which is the percentage change in recurring revenue due to downgrades, cancellations, and expansions. Here's how to calculate it:
Net churn rate: Lost revenue in month / Previous month's revenue = Net churn rate

Here's an example: $10k lost in revenue in February / $100k total in revenue in January = 10% Net churn rate

The goal is always to limit the churn rate. The goal is to ensure your new customer acquisition growth outpaces churn.

As you increase your acquisition rate, churn will automatically rise automatically, but the churn percentage shouldn't increase significantly.

This graph states that eventually, SaaS companies reach the maturity stage, and their net customer base must always be growing, meaning new customers exceed lost customers.



Source: [Chaotic Flow]

Burn Rate

Burn rate tracks the rate at which a SaaS organization depletes its cash pool over time.

This is common in startups since venture capitalists and investors will analyze their burn rate to determine how much funds to allocate to their business. For some SaaS companies, securing funding is essential to upkeeping their business, and therefore, burn rate is a crucial metric for early startup success. 82% of startups fail due to cash flow issues.

How to calculate gross burn rate: cash / monthly operating expenses

Another option is to look at the net burn rate, which accounts for the startup's incoming revenue. This tells you how long before running out of money if the situation doesn't improve or how much revenue you need in order to break even.

How to calculate net burn rate: cash / monthly operating losses

On average, SaaS companies have a 5.6:1 burn rate, meaning for every $1 of operating loss, they generate $5.6 in revenue.

Customer Acquisition Cost

Customer acquisition cost (CAC) tells you how much a company pays to attract new customers. This accounts for all costs, such as marketing, sales, and other variables.

For any business, it's vital to ensure that the cost of acquiring a new customer doesn't exceed the revenue generated from each customer.

How to calculate CAC: Total cost of marketing and sales/number of acquired customers = CAC

By understanding your CAC, you can analyze your marketing campaigns and determine which channels, methods, ad creatives, and promotional offers are most effective.

You can cut out the ineffective marketing strategies and double down on the most profitable campaigns.

Customer Lifetime Value (CLV)

The customer lifetime value (CLV) is the projected total revenue that a customer will generate through the lifetime of their account.

The longer a customer continues to subscribe to a SaaS service, the greater their customer lifetime value will be.

How to calculate: Average customer lifespan x customer revenue = CLV

The CLV metric will let you know how to readjust your engagement strategies to retain customers for longer and perhaps upsell them on higher-ticket products.

Monthly Recurring Revenue (MRR)/Annual Recurring Revenue (ARR)

The monthly recurring revenue (MRR) lets companies know how much revenue their customers generate monthly. This can either come from existing business expansions or new sales.

Annual recurring revenue (ARR) indicates a business's total recurring revenue each year.

The MRR and ARR help explain a SaaS business's financial health and provide insight into future projections.

How to Calculate MRR: Number of Active Accounts x Average Revenue Per Account

You'll want to get a true MRR minus the average revenue lost based on your churn rate.

Here's an example: 100 active users x $50 per account = $5000 in MRR

On average, five users cancel per month for about $50.

True MRR = $4750

Once you've received your true MRR, multiply that number by 12 to get your ARR.

Activation Rate

The activation rate measures the rate customers activate and use your product.

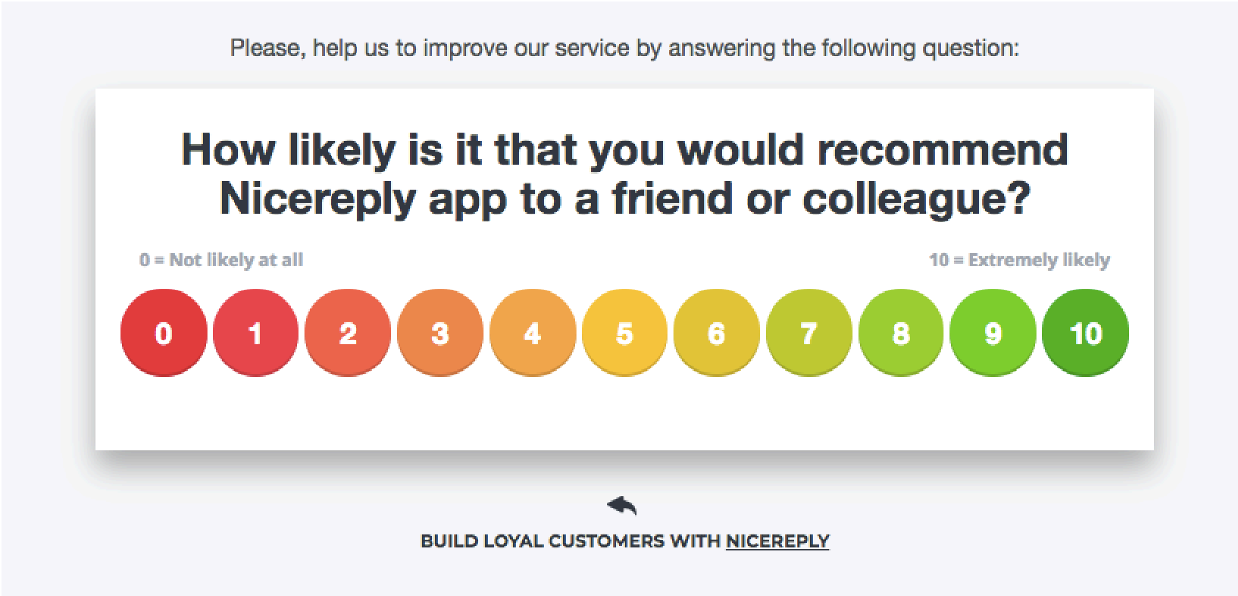
For example, a user can download a ride-sharing app. However, it's only activated after the user has made their first trip.

The activation rate measures the user interaction and success of your product. Consider how many users fail to re-engage with your software once the free trial expires. This metric is key to helping you adjust and make your product easy to use and solve their needs.

Net Promotor Score

The Net Promoter Score (NPS) allows companies to assess how happy and loyal their customer base is. This metric lets SaaS companies determine how their users feel about their solutions.

Many organizations will send survey questions to users to assess customers' willingness to recommend it to someone else or reuse their product.



Source: Nicereply

SaaS companies must utilize the NPS to adjust their products to satisfy customers' needs and meet market demands.

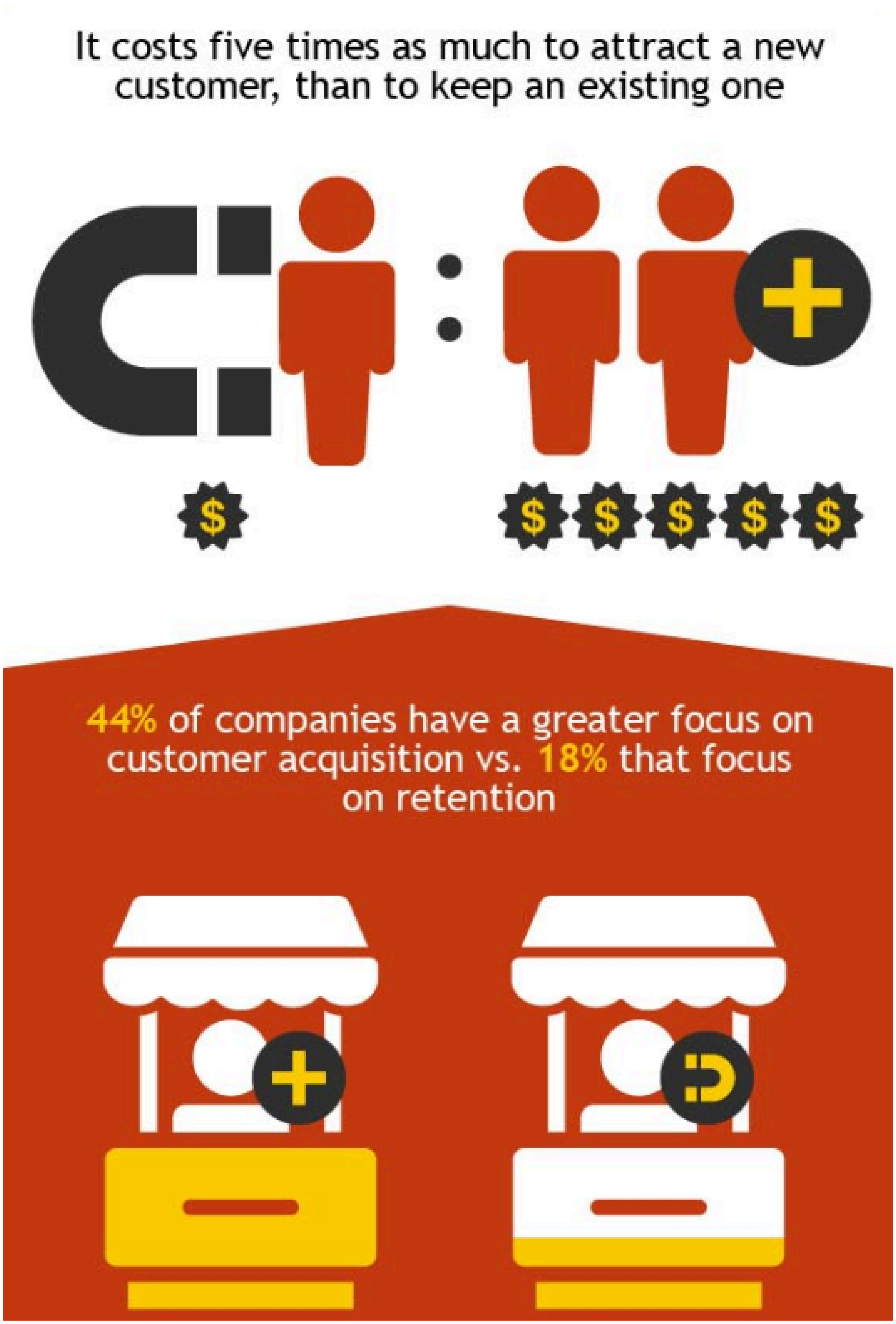
Most Important Metric: SaaS Churn

SaaS churn rates are incredibly important for understanding the probability that users may cancel their subscriptions and forecasting projected revenue.

However, SaaS companies are notorious for ignoring their churn rate. As a business, they're primarily focused on increasing revenue and obtaining new customers but often neglect the experience of their existing customers.

If you're ignoring your customers once they sign up, then they'll leave, and you'll continuously need to find new customers.

Generally, it costs five to ten times more to acquire a new customer than to retain your existing ones. Furthermore, long-term customers will spend 67% more than newly acquired customers.



Source: [Invesp]

Measuring your SaaS churn rate is imperative since it tells you whether your business is profitable and provides insight into how much your customers are enjoying your product.

Every SaaS company's goal is to have a steady stream of revenue from subscription customers while bringing in new customers.

High churn rates mean spending more money acquiring new customers and more effort needed for your sales and marketing teams to get users to sign up.

Different Types of Churn

There are multiple types of churn depending on why customers cancel their subscriptions.

While some churns are inevitable, many customers leave because the platform can't solve their pain. That's why it's crucial to properly classify your churn, allowing you to understand your product's shortcomings and how to improve them.

Here are the main categories of SaaS churn that you need to know:

Proactive Churn

Proactive churn covers all cases where customers decide to cancel their accounts. However, proactive churns aren't always a bad thing. Happy churn is when users cancel because they no longer need your product; hence you've fulfilled your job.

Seasonal products or SaaS companies that perform a one-time task like database migration are examples of happy churn.

Passive Churn

Passive churn occurs when customers forget to update their credit card information.

Sometimes, failed payments may account for 20-40% of the overall churn.

The best way to reduce passive or involuntary emails is to send reminder "dunning" emails after payment is declined.

You'll want to contact them via phone, SMS, or email and initiate lockouts to remind them to update their payment method.

UXPRESSIA

UH-OH. YOUR PAYMENT TO UXPRESSIA FAILED

We were unable to process your last payment. This could have happened for a number of reasons:

- Your card has expired;
- Lack of funds or funds on hold;
- Your bank declined the transaction for a reason unknown to us.

Don't you worry! We'll try to process your payment again in the next few days.

If the issue persists, you might need to update your billing info at UXPressia or contact your bank to keep your PRO subscription active.

If you need our help straightening it out, drop us a line at support@uxpressia.com.

Cheers,
UXPressia team

Source: Baremetrics

Negative Churn

Negative churn is essentially the holy grail of SaaS companies. This means that the total revenue from your existing customer base exceeds the revenue lost to churn.

Essentially, your customers are spending the extra money to offset the losses incurred from other customers leaving.

The best way to reach a negative churn rate is to:

- Encourage customers to upgrade their plan
- Have customers renew their subscriptions
- Upsell existing customers

Revenue Churn:

Revenue churn measures the change in customer revenue and is typically reported in aggregate. You can measure revenue churn in various categories such as:

- Churn due to downgrades
- Churn due to competitive losses
- Churn due to cancellations

Here's how to calculate revenue churn rate: Churned monthly recurring revenue divided by total monthly recurring revenue = monthly recurring revenue churn percentage (this is the percentage of monthly revenue you've lost from cancellations)

What are the SaaS Churn Rate Benchmarks?

Churn rate is inevitable. 100% of customers won't stay with you forever. However, you may be wondering, "what's an acceptable SaaS churn rate?"

We'll break down a few benchmarks for average SaaS churn rates, so you can compare how you're doing with other startups.

SaaS churn rates by growth stage:

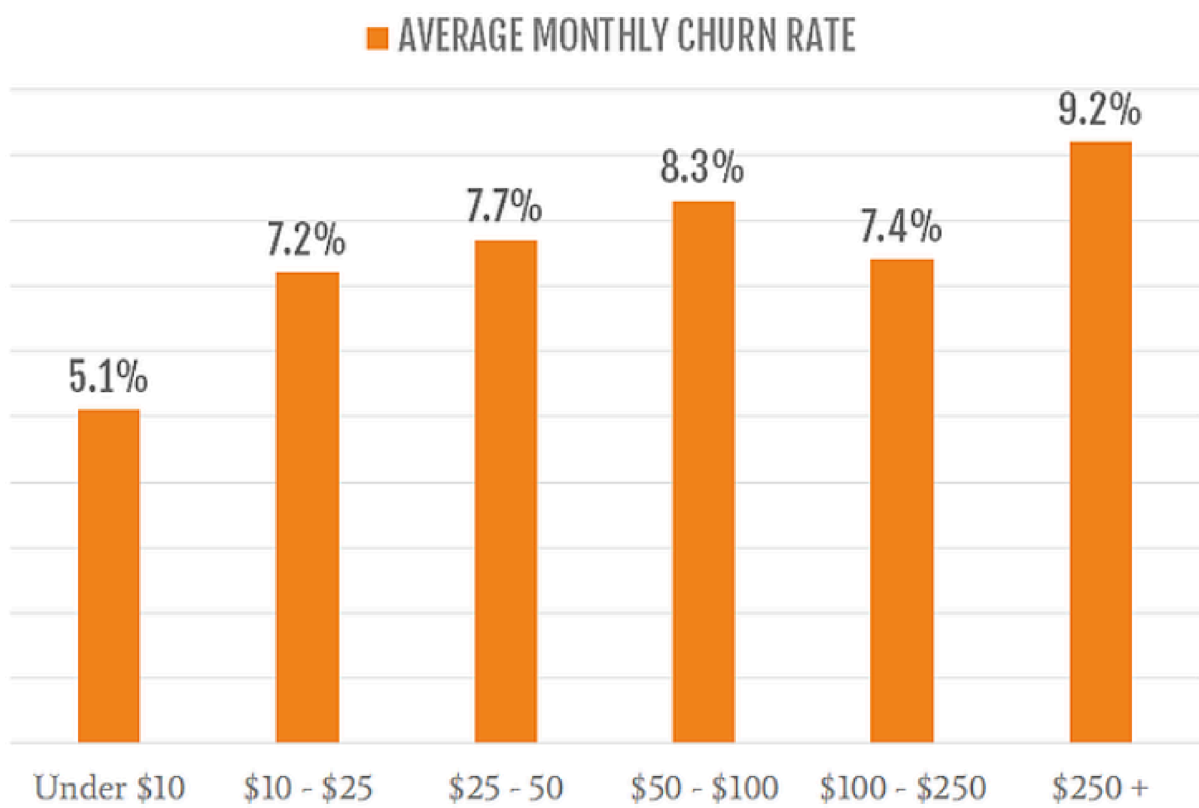
	High Growth	Medium Growth	Low Growth
<5%	39%	30%	29%
5 - 10%	27%	40%	29%
>10%	34%	30%	42%

Source: Vitally

There's no hard and fast rule. However, 5 to 10% is the average churn rate across all company growth stages. And, even better, if you can achieve under 5% is optimal for SaaS companies.

Baremetrics performed an entire analysis with over 800 startups to get a benchmark for their churn rate.

The higher the price point, the higher the churn rate. This is understandable since customers are more likely to be judicious about allocating their money with higher ticket tools.



Source: [Nextommerce]

Also, it seems that 10% of customers are being lost due to card payments such as declined cards, insufficient funds, and card expiration.

Source: [Baremetrics]

How to Reduce Churn Rate for SaaS

Just knowing about the SaaS metrics and churn rate isn't enough. You need proven strategies to lower the churn rate and help you retain more users. Here are some actionable strategies along with real-world examples:

Provide Better Customer Service

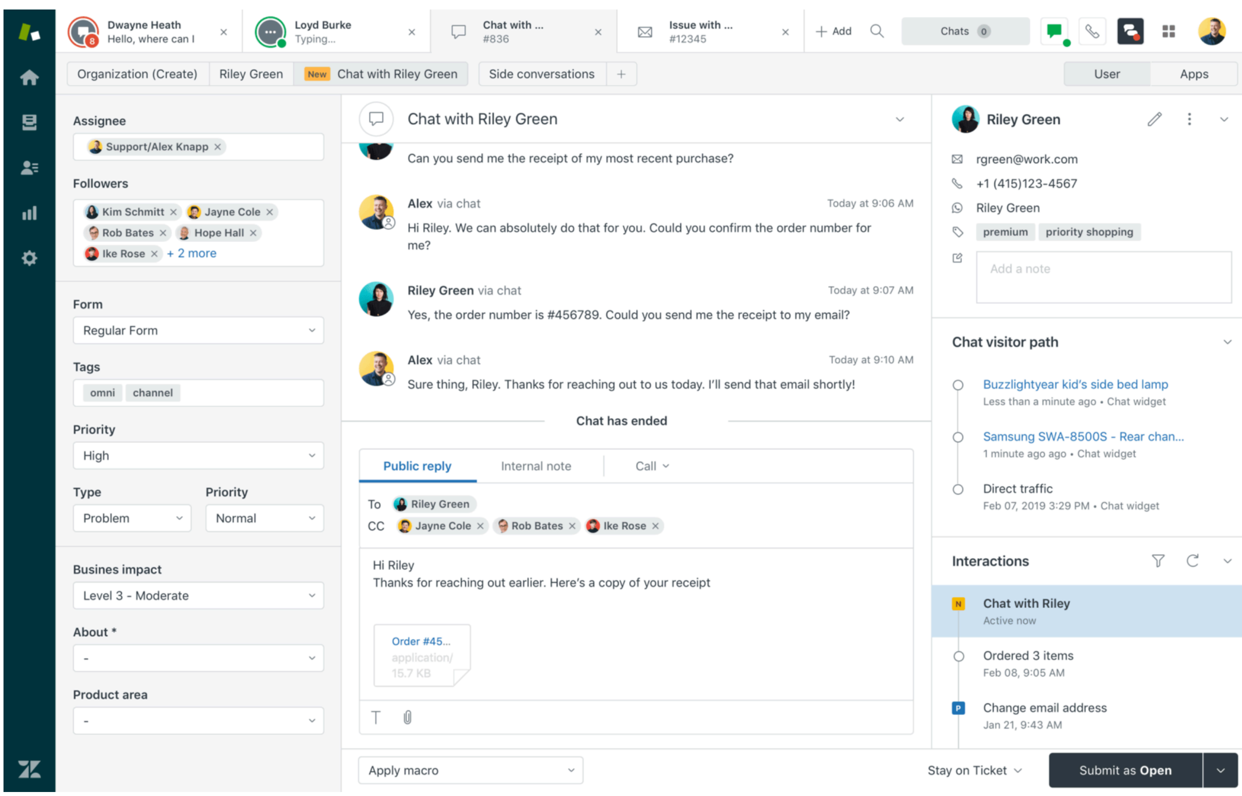
Customers don't want to subscribe to your service and never interact with you again. They want you to hold up your end of the bargain by providing an excellent product and outstanding customer service.

Loyal customers spend [67%](#) more in their 31st to 36th month compared to the first six months.

Focus on improving customer support by addressing their pain points:

- Are agents responding to customers fast enough?
- How many support interactions do users need to resolve their problems?
- What common issues are your users facing?

Many customer service software programs allow you to manage, automate and create workflows to allow your support team to complete more tickets faster.



Source: [Zendesk](#)

Groove is a SaaS startup that reduced its churn rate by [71%](#) by identifying the behaviors that signaled when users were in danger of churning.

For example, Groove sent an email like this to re-engage users who may churn.

From: Adam
Subject: How about some help?

Hey Bill,

I really appreciate you joining us at Groove, and I know you'll love it when you see how easy it is to deliver awesome, personal support to every customer.

I noticed that you didn't make it through the setup process, and I thought I'd send you a note and offer a hand. I'd love to personally walk you through getting your mailbox set up; it's the only way to get all of the benefits of Groove.

Can we schedule a 5-minute Skype chat for this afternoon or tomorrow? Let me know what works best.

Thanks,
Adam

Source: CXL

This email had a 26% response rate, and of the users who scheduled a skype call, 40% stuck around after 30 days.

Personalizing your support and finding their pain points is a great way to improve your customer service and reduce your churn rate.

Groove specifically found red-flag metrics by identifying where the main drop-off points were.

Common areas to look for are:

- Infrequent log-ins (they aren't using your software)
- Shorter visit times than the average user (they aren't using your platform to its full potential)
- Taking longer than the average user to complete tasks (they have difficulty using your software)

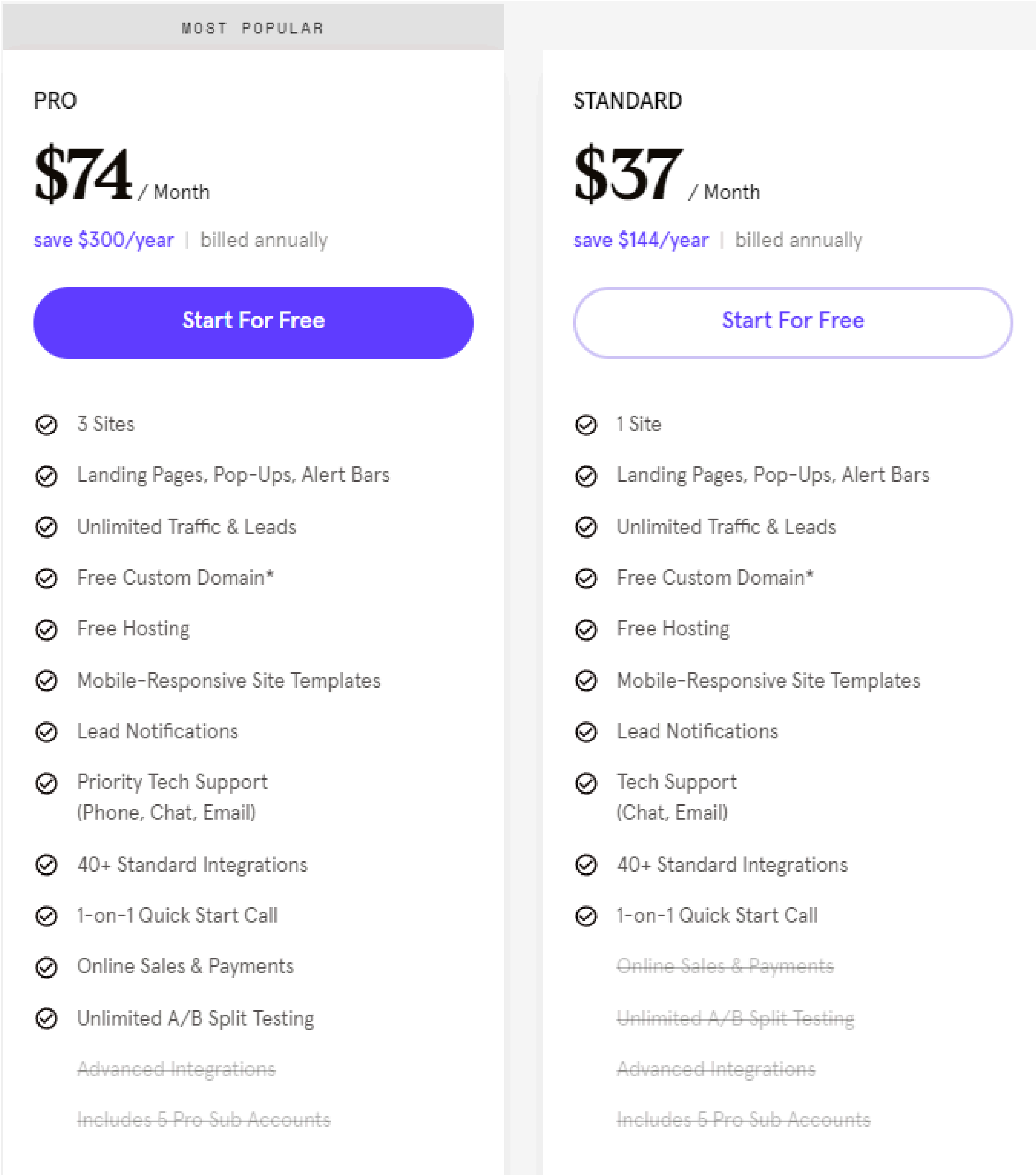
Charge Up Front

While free trials are an excellent way to get people to use your software, charging upfront subscriptions reduces churn.

When customers are locked into an annual fee, there is much more buy-in, and they're more likely to take full advantage of your software and incorporate it into their daily lives.

We recommend offering an annual plan so customers can see how much they save.

For example, Lead Pages lets you save $300 when you pay annually rather than monthly.



Source: [Lead Pages]

It may be worth sending reminders to existing users on the monthly plan to switch to annual.

Build an Engaging Your Onboarding Sequence

> *"40-60% of users who sign up for a free trial of your software or SaaS application will use it once and **never come back**."*
>
> Patrick McKenzie, Intercom

Source: Cobloom

During the free trial period, educating and proving that your software solves its pain point is imperative.

There should be an 'aha!' moment where users can experience the real benefits of your product.

Aha moment

/ä-hä ˈmō-mənt/ • noun

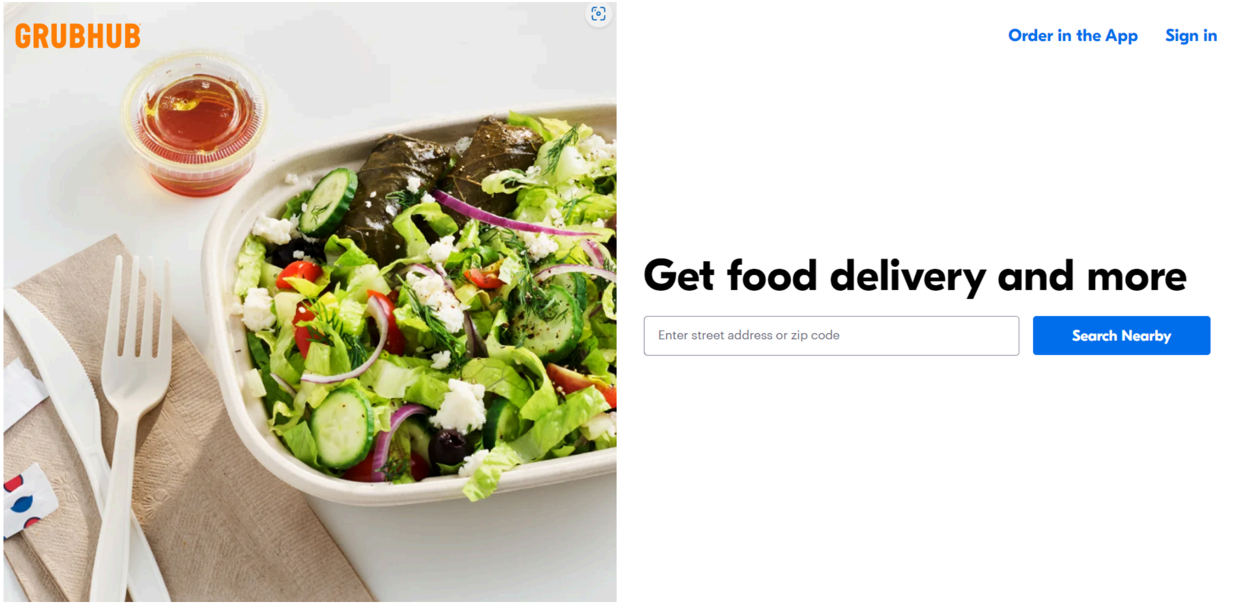
1. The pivotal moment when new users first realize the value of your product.
2. A moment of sudden insight or discovery.

See also: activation event, eureka effect

Source: Appcues

The key is to minimize the steps and remove the friction to get started. Many of the best software companies don't require new users to sign up to use the platform.

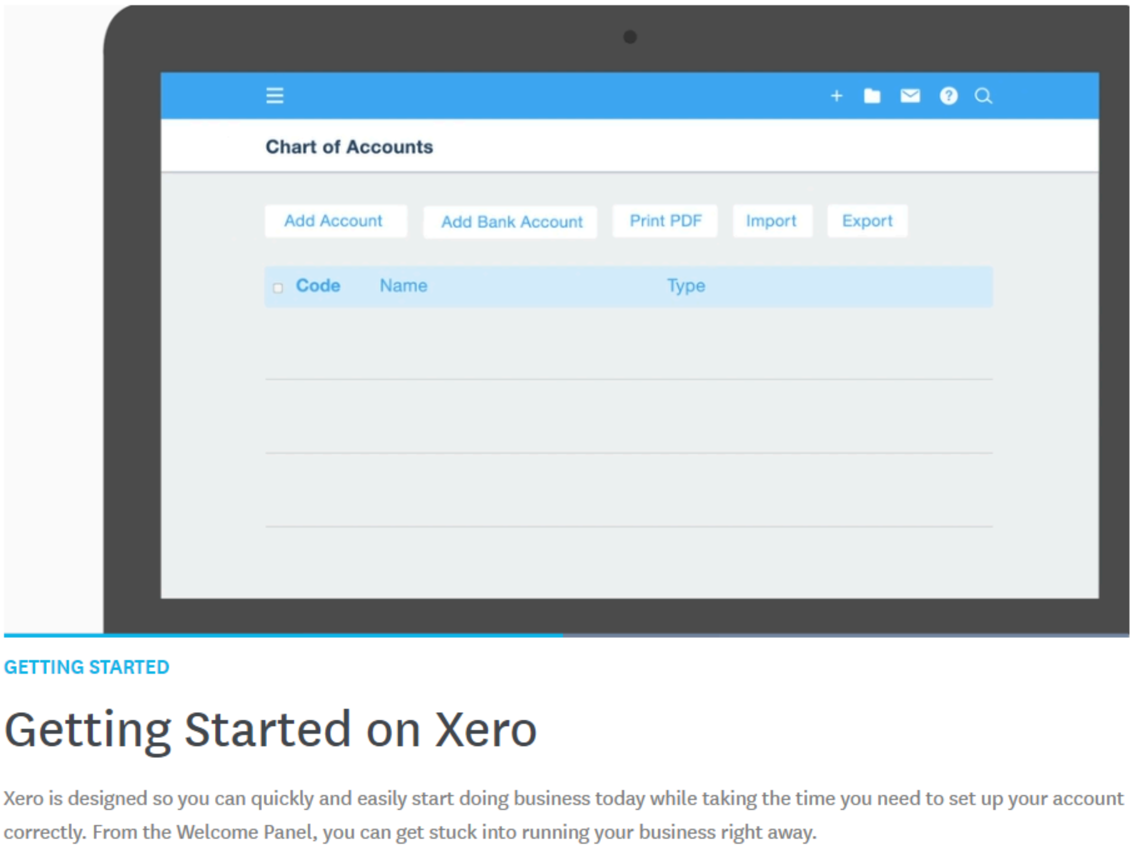
Grubhub presents a page full of restaurants once the new user enters their address.



Source: [Grubhub]

Ideally, you want to include interactive educational content to help users maximize their tools.

When signing up for Xero's accounting software, you are prompted to watch a "Getting Started" video, an animated walkthrough, which shows you how to use their platform.

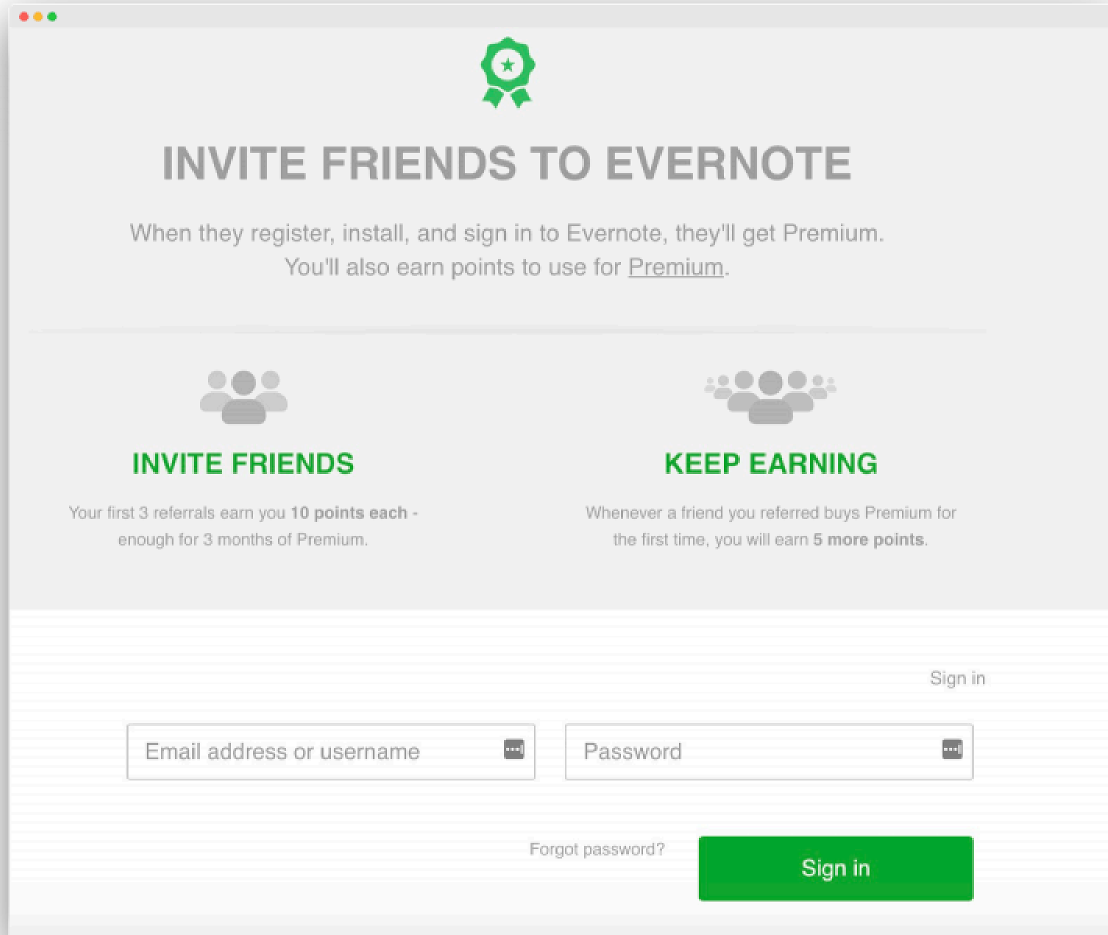


Source: [Xero]

Offer Incentives for Referrals

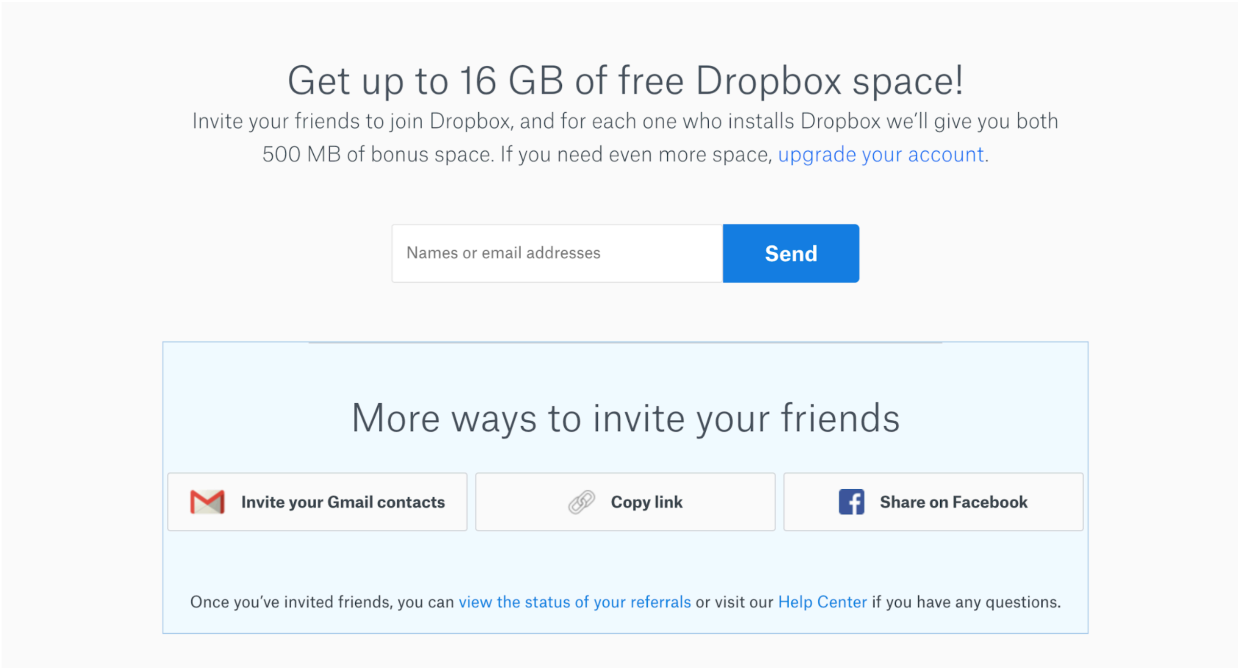
Everyone loves extra incentives, discounts, or rewards. Customers who love your product may want to share it with their friends, family, or colleagues.

Evernote, a cloud-based note-taking software, offers a referral program where you gain three months of Premium for the first three people you invite to the platform.



Source: UpViral

Another example is Dropbox, a storage cloud-based software that rewards users by providing an extra 500MB of storage for every new person they invite.



Source: Emirex

Key Takeaways: Stay on Top of Your SaaS Metrics

Learning about the SaaS metrics is only the first step. You must determine a scalable way to track your metrics so that you can view your company's progress over time.

Improving on metrics requires gaining customer feedback, analyzing user behavior, and implementing changes that will drive improvement in your churn rates.

Here are actionable takeaways from this blog post:

- **Know your SaaS metrics:** Understand churn rates, monthly recurring revenue, customer acquisition cost, etc.
- **Track your metrics.** See how you fair by benchmarketing your SaaS company with other companies in the industry or growth stage.
- **Improve your churn rate.** You can improve your customer service, create frictionless onboarding sequences, and create loyalty programs.

There you have it. Now you know all the essentials to SaaS metrics and churn rates.

The real work is implementing changes such as attracting higher quality users, creating a better product, and onboarding programs to retain users.

At ScaleMath, we aim to drive growth through reliable and ROI-driven SEO strategies. With our help, we can help drive loyal customers to your software company.